

# Motor Vehicles, Model Year 1981

**S**ALES of new motor vehicles totaled 11.3 million in model year 1981, down from 11.9 million in 1980. The decline was the third in a row from the record 15.3 million in 1978. Sales of both new passenger cars and new trucks fell further in 1981, reflecting sharp increases in costs associated with the purchase and ownership of a new car as well as adverse general economic conditions. Early in the year, anticipated increases in domestic new car sales failed to materialize, and inventories built up. Price discounts were initiated to stimulate sales and to bring inventories back into line. When inventories again built up, another round of price discounts was initiated at the end of the model year. Sales of imported cars leveled off, but their market share edged up to a record high.

Production of domestic cars followed a smoother course than that of sales in 1981, but for the year was as weak as in 1980. Production of domestic trucks also remained weak.

## New Cars

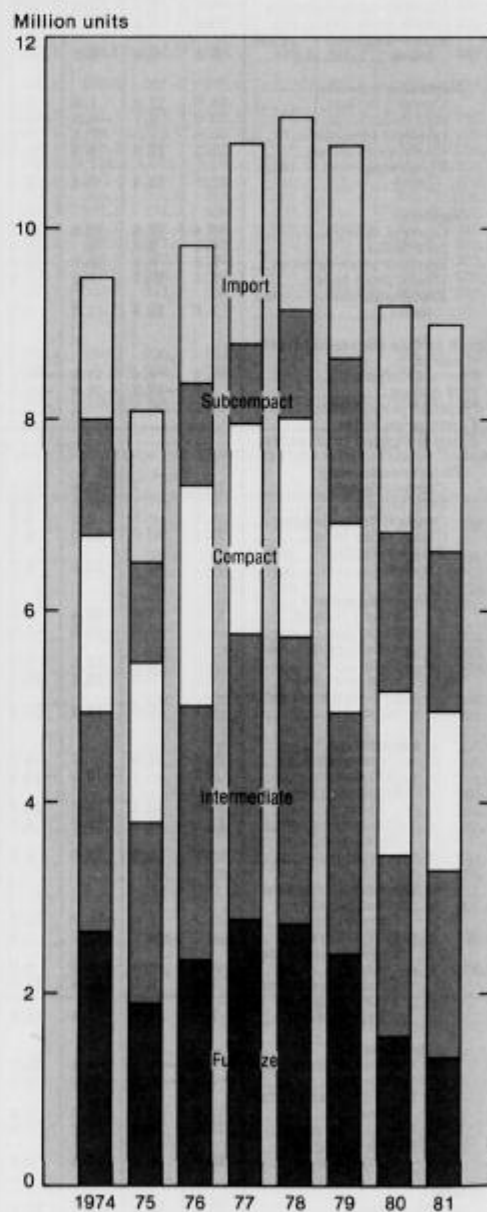
Retail sales of new passenger cars totaled 9.0 million in the 1981 model year, down slightly from 9.2 million in 1980, and far below the 11.0 million recorded in 1977-79 (chart 6). Sales of domestic cars fell from 6.8 million in 1980 to 6.6 million in 1981, and sales of imported cars were flat at 2.4 million. On a quarterly basis, new car sales were 9.1 million (seasonally adjusted annual rate) in the fourth quarter of 1980, increased to 10.1 million in the first quarter of 1981, plunged to 7.8 million in the second quarter, and returned to 9.1 million in the third.

Sharp increases in costs associated with the purchase and ownership of a new car and adverse general economic conditions were major factors in the weakness of new car sales in 1981, as in 1980. Among the adverse economic conditions, uncertainty about job security and income losses continued. The unemployment rate has hovered about 7½ percent since the second quarter of 1980. Also, monetized capital gains on existing residences, which had been available to support consumer purchases, were down, as increases in housing prices slowed and the volume of transactions declined.

The average unit sales price of a domestic car was almost \$9,000 in the third quarter of 1981, up 28 percent from the third quarter of 1979. Items tied to the sales price, such as taxes and insurance, were up sharply. Gasoline prices climbed 41 percent over the 2-year period. This large increase probably held down driving and prolonged the life of existing cars, but it probably also encouraged the trade-in of existing cars for the more fuel efficient new cars. The cost of new car financing was up substantially due to adverse financial conditions.

*Financial conditions.*—Inasmuch as almost three-fourths of all new cars are bought on credit, record-high interest rates and constraints on the availability of credit contributed to the weakness of new car sales in both 1980 and 1981. As can be seen from chart 7, the finance rate on selected consumer auto installment loans by commercial banks was stable at about 11–11½ percent prior to mid-1979. The rate increased rapidly during the 1980 model year, peaking at 15½ percent, before subsiding. The increase resumed in the fourth quarter of

CHART 6  
New Passenger Car Sales  
by Model Year



Note.—Based on October through September sales for each model year.  
Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports.

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1980 and reached a record 17 percent in the third quarter of 1981. On a 48-month \$6,000 loan, the increase in the finance rate since mid-1979 would translate into a 10-percent increase in the monthly payment for a new car. The combination of rising new car prices and finance rates kept some buyers from qualifying for auto loans.

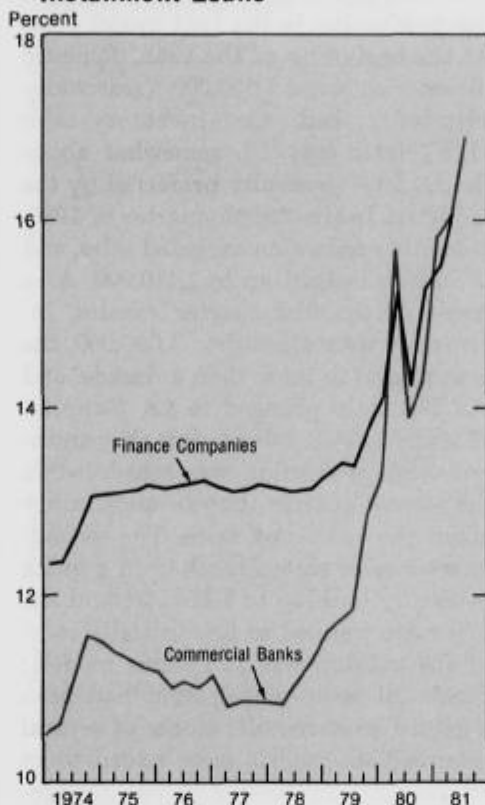
Commercial banks, which had been the principal source of auto loans in the 1970's, cut back sharply on their lending. Extensions of auto installment loans by commercial banks fell from \$4.39 billion (seasonally adjusted) in the third quarter of 1979 to \$3.36 billion in the third quarter of 1980. In July-August 1981, extensions averaged \$3.67 billion. The commercial bank share of total auto loan extensions fell sharply, from 55 percent in 1979 to 48 percent in 1980 and to 44 percent in July-August 1981.

As commercial bank lending dropped, finance companies—whose loans are dominated by automakers' subsidiaries—stepped-up their lending and held down their finance rates to support new car sales. Their share of loan extensions increased from 25 percent in the third quarter of 1979 to 32 percent in 1980 and to 37 percent in July-August 1981. Prior to 1980, the finance rate charged by these companies exceeded that charged by commercial banks by about 1-2 percentage points. As commercial bank finance rates soared, the gap was closed.

### Domestic and import sales

The weakness in new car sales in the 1981 model year, as in the 1980 model year, was pervasive; sales of all domestic size categories except subcompacts were well below their 1977-1979 levels. Full-size car sales fell from 1.6 million in 1980 to 1.3 million, and their share of total sales dropped from 17 percent to 15 percent, a record low. Despite improvements in fuel efficiency due to reductions in exterior size and weight—"downsizing"—and increased use of diesel engines, many buyers have traded down to smaller cars. The number of full-size models available continues to decline; several more models are being phased out in 1982.

### Finance Rates on New Auto Installment Loans



Note.—Most common finance rates (annual percentage rate) at reporting institutions.

Data: Federal Reserve Board.

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Intermediate car sales leveled off at 1.9 million and a 21 percent market share, after declining sharply the previous 2 years. As in the case of full-size cars, the declines had reflected the trading down to small cars. The introduction of several restyled models in 1982 and the phasing out of full-size models are likely to hold up intermediate sales in the near future.

After edging down for 2 years, compact car sales leveled off at 1.7 million, and they maintained an 18½ percent share of the market. In the face of declines in total sales, subcompact car sales were 1.7 million in each of the last 3 years, and their market share increased from 16 percent to 19 percent. Over this period, several new and downsized subcompact models were introduced, and additional models are planned. The new models are smaller, lighter, and considerably more fuel efficient than their predecessors. The trading

down to smaller cars is likely to continue.

Imported car sales were unchanged at 2.4 million, after 2 years of strong increase. The increase had been almost entirely in sales of Japanese subcompacts, which accounted for nearly 80 percent of import sales and 21 percent of total new car sales in 1981. These cars are among the most fuel efficient available. The flattening out of sales in 1981 can be attributed to the factors that generally weakened the new car market. The Japanese auto agreement probably did not have much impact on the yearly total. Effective for the year beginning April 1, 1981, Japan agreed to limit shipments of cars to the United States to 1.68 million, compared with 1.82 million in the year-earlier period. If new car sales pick up in 1982, the Japanese share of the market could be held down by the limitation of shipments. The first Japanese-owned car plant to be located in the United States is scheduled to open within a year and a half; sales of these cars will be considered domestic sales.

### New car prices

The uneven quarterly pattern in new car sales largely reflected the timing of price increases and of discounts on domestic cars. At the beginning of the 1981 model year, domestic manufacturers raised list prices an average of 4-5½ percent, roughly the same as they had in the previous 2 years. In the fourth quarter of 1980, new car sales showed less strength than the rest of the economy. Nevertheless, new car prices were raised about 1-1½ percent in the beginning of January. In mid-February, in response to stagnating sales and mounting inventories, domestic manufacturers announced extensive cash rebates. The rebates, which included many high-volume intermediate and compact cars, were advertised at about 10 percent of the list price. Dealers were required to contribute a portion of the rebate; because they resisted cutting into their margins, the effective discount to the buyer was probably less than advertised. The rebates, which lasted through most of March, substantially boosted first-quarter sales. An



undetermined portion of the sales boost represented "borrowing" from future periods; buyers who were considering the purchase of a new car took advantage of the temporarily discounted prices. The "borrowing" of sales, an increase in new car prices in April and May that ranged from 2-3½ percent per unit, and record finance rates all contributed to the second-quarter plunge in sales to their lowest level since the recession a year earlier. In mid-August, manufacturers initiated another round of price discounts. The discounts, which consisted of various cash rebates, dealer incentives, and finance subsidies, were designed to clear out excess inventories of old, 1981 models. Price increases on the 1982 domestic models were first announced to be in the range of 5-7½ percent, which would have been somewhat larger than in previous years, but were subsequently scaled back to 4-6 percent.

Prices of imported cars were raised about the same amount as domestics at the beginning of the 1981 model year, and were raised throughout the year. Some price discounting occurred in response to the domestic manufacturers' programs. Over the past year, the appreciation of the dollar against the Japanese yen and the German mark did not lead to a price decrease; the expected effect of appreciation may have counterbalanced strong upward pressures from a tight market for imported cars. Several leading foreign manufacturers have announced increases of 5-7½ percent in the prices of their new, 1982 models.

### Production and inventories

Domestic production in the 1981 model year totaled 6.6 million, about the same as in 1980. Production was weak throughout the year. Many plants operated below capacity: Production lines often ran at less than optimal speeds, single work shifts were common, and temporary closings were frequent. The number of hourly workers on indefinite layoff remained high, beginning the year at 215,000, and ending it at about 160,000.

The large fluctuations in domestic new car sales caused wide swings in inventories and uncertainties in scheduling production in the 1981 model year. At the beginning of the year, domestic inventories were 1,390,000 (seasonally adjusted), and the inventory/sales (I/S) ratio was 2.6, somewhat above the 2.0 level generally preferred by the industry. In the fourth quarter of 1980, domestic production exceeded sales, and inventories edged up to 1,440,000. As a result of the first-quarter rebates, inventories were slashed to 1,090,000, the lowest level in more than a decade, and the I/S ratio plunged to 1.8. Supplies of many models were so low that an increase in production was scheduled in the second quarter despite uncertainty about the course of sales. The second-quarter sales slump resulted in a quick inventory buildup to 1,470,000, and the I/S ratio jumped to 3.2. Initially most of the buildup was in specific models: Stocks of some models that had been depleted were rebuilt; stocks of several intermediate models were added to in preparation for major model changeovers in the third quarter; and stocks of new subcompact models were built up prior to their May introduction. As the sales slump continued, however, the inventory accumulation became more widespread.

### Recent developments and outlook

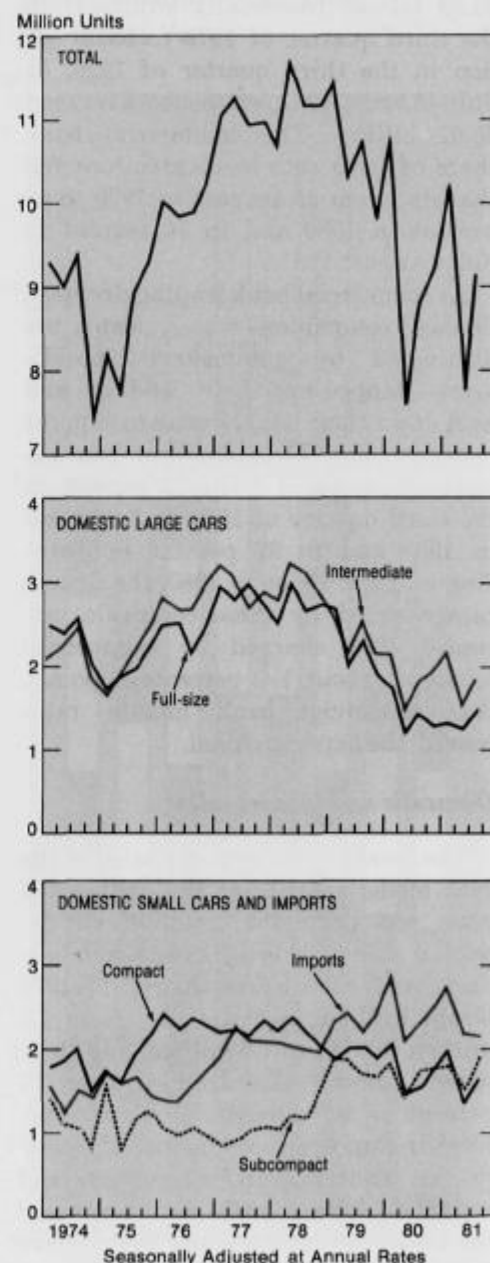
New car sales were weak at the beginning and end of the third quarter, but were boosted in August and early September by the price discount programs. Domestic new car sales totaled 6.9 million for the quarter as a whole, compared with 5.6 million in the second quarter. Sales of all size categories were up: Full-size car sales increased to 1.5 million from 1.3 million, intermediate sales to 1.9 from 1.6 million, compacts to 1.6 from 1.3 million, and subcompacts to 1.9 from 1.5 million (chart 8). Sales of imported cars—at 2.2 million—were unchanged from the second quarter, and their market share fell to 24 percent, the lowest in 2 years.

Inventories of domestic cars were about 1,430,000 (seasonally adjusted), down slightly from the end of the sec-

ond quarter; inventories were run up sharply during the first part of the third quarter and down sharply during the second. The I/S ratio dropped to 2.5, but was still above the preferred level. Inventories of imported cars, especially those of popular Japanese models, were very low by the end of the third quarter.

The near-term outlook for new car sales is not promising. The economy continues to be weak, and interest rates

CHART 8  
Retail Sales of New Passenger Cars



Note—The components may not add to the total because each category was separately adjusted for seasonal variation.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports; seasonal adjustment by BEA.

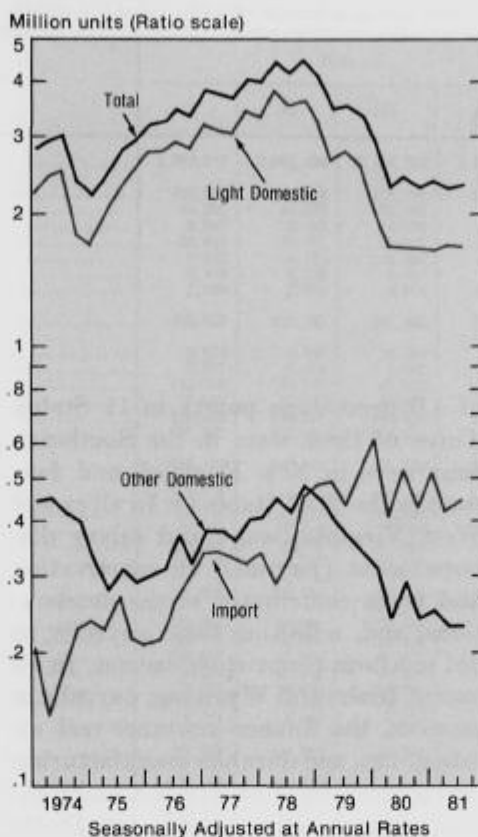
remain high. Despite the price discount programs, sales of domestic cars fell off at the end of the third quarter. Production schedules for the fourth quarter have been reduced to well below the 6.9 million (seasonally adjusted annual rate) produced in the third, indicating that domestic manufacturers expect a slow start in the 1982 model year. Sales of imported cars will be limited by tight supplies of Japanese cars: Inventories are low, and shipments will be restricted by the auto agreement.

### New Trucks

Retail sales of new trucks totaled 2.3 million in the 1981 model year, down from 2.7 million in 1980. Sales of domestic light, domestic "other," and imported trucks all declined. On a quarterly basis, new truck sales fluctuated within 2.3-2.4 million (seasonally adjusted annual rates) from the fourth quarter of 1980 through the third quarter of 1981 (chart 9).

Sales of domestic light trucks (up to 10,000 pounds) fell from 1.9 million in 1980 to 1.6 million in 1981. At 1.6 million, sales were less than one-half their record high of 3.4 million in 1978. Most light trucks are pickups and vans, more than one-half of which are purchased by consumers for personal use. These purchases were affected by the same cost and general economic factors that dampened purchases of new cars. Another reason for the 3-year plunge in domestic light truck sales was their relatively low fuel efficiency: Fuel efficiency improvements for new cars outpaced those for new domestic light trucks; domestic conventional pickups weighed considerably more than imported compact pickups and used much larger engines; and, some domestic trucks are four-wheel drives, which are less fuel efficient. Concerns about fuel efficiency slowed the switch from cars to domestic pickups or vans for personal use, and accelerated the switch from do-

CHART 9  
Retail Sales of New Trucks



Note.—Retail sales of domestic new trucks are classified by gross vehicle weight as light-up to 10,000 pounds, and other-over 10,000 pounds. Import trucks include imports by U.S. manufacturers.

Data: Motor Vehicle Manufacturers Association of the United States, Inc. and Ward's Automotive Reports; seasonally adjusted by BEA.

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mestic conventional to imported compact pickups.

Sales of imported trucks declined from a record 0.50 million in the 1980 model year to 0.45 million in 1981, but their share of total light truck sales edged up from 20½ percent to a record 21 percent. A major factor in the decline in sales of imported trucks, which are nearly all Japanese compact pickups, was a change in tariff rulings at the beginning of the model year. Effective August 20, 1980, the U.S. Customs Service reclassified imported trucks without cargo boxes—the form in which virtually all Japanese pickups enter this

country—from "cab chassis," dutiable at 4 percent, to "unfinished trucks," dutiable at 25 percent. This change added nearly \$1,000 to the sales price of these units in model year 1981.

In coming years, domestic manufacturers should be able to increase their share of the light truck market. Continued downsizing of conventional pickups will improve fuel efficiency. Further, domestic compact pickups, comparable to the imports, will be introduced in 1982 and 1983. The first Japanese-owned truck plant to be located in the United States is scheduled to start producing light trucks for the 1983 model year; sales of these trucks will be considered domestic sales.

Sales of "other" trucks (over 10,000 pounds) were weak throughout the 1981 model year. This broad category consists of medium-duty trucks, mostly general delivery trucks and buses, and of heavy-duty trucks, mainly large van trucks and diesel tractors designed to pull trailers. Sales of these trucks fell from 0.30 million in 1980 to 0.24 million in 1981, their lowest level in more than a decade. The decline reflected the generally uncertain economic conditions and high interest rates, which deterred business investment. Imported trucks have begun to make inroads in both the medium- and heavy-duty truck markets.

Production of trucks was weak throughout the 1981 model year, and inventories showed little change. Production of domestic trucks totaled 1.8 million, up only slightly from the 13-year low of 1.7 million registered in 1980. At the beginning of the 1981 model year, inventories of domestic new trucks were 524,000 (seasonally adjusted), and the I/S ratio was 3.3. By the end of the fourth quarter of 1980, inventories had increased to 591,000, and the I/S ratio was up to 3.8. Both declined as production was held down in the first half of 1981. At the end of the third quarter, inventories were 516,000, and the I/S ratio was back down to 3.3.